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LATIN AMERICA: Threat, annoyance or land of hope?

Ethanol in the Caribbean works on-and-off like a lightning bug, depending on trade, crops

FUELING IOWA'S FUTURE: WORLDWIDE COMPETITION

By PAULA **LAVIGNE**

REGISTER STAFF WRITER

Omar Bros' hope for his country lies in an oily seed and a dying sugarcane industry.

Bros, an agronomist and civil engineer in the Dominican Republic, is betting on biofuels. And his country's effort is just part of a global awakening to renewable energy.

The Caribbean, which includes the Dominican Republic, and Central America offer examples of the uncertainty many regions face in the global energy grid. If those regions have the resources, they have to ask whether biofuels are worth the investment.

"The other question is, 'Do I want to produce ethanol for the domestic market, or do I want to export it?' " said Sergio Trindade, director of science and technology for International Fuel Technology in St. Louis and former assistant secretary general for the United Nations Science and Technology Committee. "It is a question whose answer depends on time."

In the United States, experts debate whether biofuel growth in the tropics will cut into profits for Midwest producers. Special free-trade agreements with those countries can make it less expensive to ship ethanol from there to the U.S. coasts.

"I don't think there is an answer right now," said Douglas Newman, who studies ethanol for the U.S. International Trade Commission. "As far as the Caribbean being a threat, it's been around for a long time, but it's never amounted to much and the demand has been there."

Investors from Brazil, Europe and United States are already buying into the biofuels industry in the Caribbean and Central American countries. A recent pact between Brazil and the United States helps some of these smaller countries get technology and know-how to make ethanol and biodiesel.

Growing, producing and using renewable fuels can help Caribbean countries become less dependent on imported oil, said Johanna Mendelson Forman, senior associate with the Center for Strategic and International Studies in Washington, D.C.

Much of that region's oil is supplied by Venezuela, where President Hugo Chavez is known for his animosity toward President Bush. Caribbean countries have been supportive of U.S.

policies, and the United States doesn't want them to start siding with Chavez instead, Forman said.

"Chavez is trying to seek friends and allies. ... The Caribbean has 22 votes at the U.N. If you get some kind of dependency with a country, you have other ways with sticks and carrots of using your dependency," Mendelson Forman said.

But Bros, the agronomist in the Dominican Republic, isn't working for politics. He's working to improve incomes and lives.

"We should consider the reality of the poverty," Bros said. "Do we want equal opportunities for kids that do not have the chance to be born in Iowa?"

Bros is gathering support for growing sweet sorghum and jatropha hedges, whose oily seeds can be used for biodiesel. And he's hoping an ethanol plant can revive the island's dormant sugar fields.

"We are babies in this process," Bros said. "It's going to be a long road to make this work."

Free trade lets cheaper ethanol move through Caribbean to U.S.

Today, biofuel industry workers refer to ethanol plants in the Caribbean as lightning bugs.

On. Off. On. Off. On. Off.

Most ethanol plants in the Caribbean and Central America don't make ethanol. They merely take sugarcane ethanol from Brazil, suck out the water and send it to the United States, where it's blended with gasoline.

Plants frequently shut down when profit margins disappear and ramp up when prices make it worth their while.

These dehydration operations exist to take advantage of a free-trade agreement the United States has with the Caribbean and many Central American countries.

Ethanol from those countries isn't subject to the 54-cent per-gallon extra charge tacked on to direct exports from Brazil, the world's second-largest ethanol producer. The extra charge, or tariff, prevents foreign ethanol from getting the 51-cent federal subsidy that supports U.S. producers.

However, ethanol from Brazil can be sent into the United States without the tariff if it is exported and processed through a free-trade country such as Jamaica or El Salvador.

For companies on the East Coast - where most recent imports arrive - indirectly shipping sugarcane ethanol from Brazil can cost less than trucking it from Iowa.

Last year, when ethanol imports were at an all-time high, ethanol coming into the United States under the Caribbean or Central America duty-free quota peaked at 206 million gallons. That was about 75 percent of such imports allowed through those countries last year. Trade rules allow pass-through ethanol to equal no more than 7 percent (268 million gallons) of U.S. ethanol consumption.

Some ethanol workers say that's an unfair loophole stealing the subsidy advantage from U.S. producers.

James Redding is vice president of external relations for Aventine Renewable Energy, an ethanol producer that also sells ethanol for Iowa plants. He said the trade provision was designed to stimulate economies in the Caribbean and not to benefit a few companies installing dehydration plants. Using it as a gateway for Brazilian ethanol also contradicts U.S. renewable fuel policies to reduce reliance on foreign fuel, he said.

"If you're importing energy through a loophole in another part of the world, you're bypassing the intent," he said. "Is it a threat? Sure, it's a threat."

Others say it's more of a mere annoyance.

"We do not see it as a threat," said Bob Dinneen, president of the Renewable Fuels Association, noting that U.S. producers are sitting on an annual capacity of 6 billion gallons.

Monte Shaw, executive director of the Iowa Renewable Fuels Association, said he hears few complaints.

He said Caribbean countries haven't sent any fuel-grade ethanol to the United States that was made with their own sugar cane. "What they do and don't do is pretty far to the right of the decimal point."

Sugarcane industry loses its sweetness

If Caribbean and Central American countries switched from being a dehydration pit stop to becoming a producer, they could export even more ethanol. As long as ethanol is made from 50 percent local ingredients, they can export all they want free of the tariff.

Yet Guatemala and Nicaragua are the only countries among those in the trade agreement producing significant amounts of ethanol from their own sugarcane, and much of that is being exported to Europe, trade and regional experts say.

Elsewhere in the Caribbean and Central America, sugar has gone sour.

"The sugar industry is in decline and has been in decline for quite a while," Trindade said.

Trindade said price guarantees and import quotas from the United States and Europe designed to support the industry have backfired. They gave growers no incentive to invest in technology. Yields didn't improve and some state-owned companies shut down, resulting in thousands of lost jobs.

As a result, the cost to make ethanol from sugar is high. Caribbean and Central American countries can't afford to subsidize their sugar industry the way Brazil can, or the way the U.S. government supports its corn farmers, Trindade said.

About 6,000 acres of fallen and rotting stalks is all that's left of more than 300 years of sugarcane in the tiny Caribbean islands of St. Kitts and Nevis.

"Half of it is lying down and scraggly. It looks like it badly needs a haircut," said Mark Lambrides, the energy and climate change division chief with the Organization of American States.

OAS is one of the agencies helping St. Kitts and Nevis, El Salvador, Haiti and the Dominican Republic develop biofuels technology.

Lambrides said St. Kitts and Nevis don't have enough land to support a viable ethanol industry, especially not one that could profit from exports.

He suggests burning the sugarcane fibers instead to produce electricity, which would be valuable to a country where residents pay about 30 cents a kilowatt hour - more than three times the rate for Iowans.

He said liquid spun off from the canes could be used to make either ethanol for local use or rum, depending on the prices and demand.

Other countries, most that have more land available than St. Kitts, also are looking into their options by tapping local innovators and outside investors.

In Jamaica, where the prime minister wants all gasoline to have 10 percent ethanol by next year, the government is selling large tracts of land on which a company could grow sugar cane and make ethanol.

It is unclear whether Jamaicans would see profits from that development. According to local media and dehydration plant operators, most of the interest in buying land has come from companies in Brazil.

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DOMINICAN REPUBLIC:BABIES IN PROCESS

Omar Bros, right, shown with Baylor professor Max Shauck, center, and a colleague, are working to increase biofuels production in the Dominican Republic. Bros believes an ethanol plant could revitalize his country's sugarcane industry and that there's potential in making biodiesel from sweet sorghum and jatropha hedges. We are babies in this process, Bros said. It's going to be a long road to make this happen.

Textbox: Iowan checks out competition

Graphic: U.S. ethanol imports